

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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# CONTENTS

<b>Sr. No.</b>	<b>TITLE &amp; NAME OF THE AUTHOR (S)</b>	<b>Page No.</b>
1.	<b>ANALYSIS OF FACTORS INFLUENCING THE CONVERGENCE OF INDIAN ACCOUNTING STANDARDS WITH IFRS BY THE RESPONDENTS OPINION USING GARRETS' RANKING TECHNIQUE</b> <i>Dr. ADAPA JYOTHI &amp; Dr. M N V SATYANARAYANA</i>	1
2.	<b>STRATEGIC ANALYSIS OF CONSTRAINTS IN MICRO, SMALL AND MEDIUM ENTERPRISES FINANCING BY BANKS</b> <i>ONKAR CHAND &amp; Dr. K. K. PARMAR</i>	4
3.	<b>PERFORMANCE EVALUATION OF SELF HELP GROUP AWARENESS AND PARTICIPATION AMONG WOMEN</b> <i>M. J. CECILIA SHOBANA &amp; Dr. V. K. SOMASUNDARAM</i>	8
4.	<b>FINANCIAL LITERACY AMONGST ADULT MALE SLUM DWELLERS OF BIDHANNAGAR, INDIA</b> <i>KOUSHIK CHATTERJEE &amp; AERICA SARDAR</i>	13
5.	<b>AN EVALUATION OF DETERMINANTS OF DIVIDEND POLICY A STUDY OF THE BANKING SECTOR IN KENYA</b> <i>BOSIRE JARED ARERI &amp; VINCENT NYAKONDO NYANG'AU</i>	19
6.	<b>ASSESSING THE SUSTAINABILITY OF INFORMAL SAVING GROUPS AS A SOURCE OF FINANCE FOR THE ZIMBABWEAN INFORMAL SECTOR</b> <i>LINDA M. MABWE &amp; THABANI DUNDU</i>	23
7.	<b>EFFICIENCY INSURANCE COMPANIES IN INDONESIA, MALAYSIA AND SINGAPORE</b> <i>PUTU ATIM PURWANINGRAT</i>	27
8.	<b>AGRICULTURAL FINANCE IN ODISHA: A COMPARATIVE STUDY OF FARMER'S PERCEPTION AND BANKERS ATTITUDE TOWARDS AGRICULTURAL CREDIT</b> <i>SURENDRA KUMAR MALLICK</i>	36
9.	<b>BUYING BEHAVIOUR OF REFRIGERATORS WITH SPECIAL REFERENCE TO CALICUT CITY</b> <i>ANITHA K</i>	40
10.	<b>E-BANKING IN INDIA</b> <i>POOJA</i>	45
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	48

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# STRATEGIC ANALYSIS OF CONSTRAINTS IN MICRO, SMALL AND MEDIUM ENTERPRISES FINANCING BY BANKS

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## ABSTRACT

*The Micro, Small and Medium Enterprises have emerged as a strong, dynamic and vibrant sector of the Indian economy and are playing a significant role in the socio economic development of the country. The contribution of Micro, Small and Medium Enterprises in our country's Gross Domestic Product is 8 %, in manufactured output is 45 % and in country's export is 40 %. But still the MSME are confronting the financial constraints. In the current study, we have conducted strategic analysis of the constraints in respect of financing by banks and observed that non availability of credit, inadequate availability of credit, delayed availability of credit are the main constraints followed by collateral security requirements, charging high rate of interest, requirement for audited financials lengthy documentations and non display of banks products, services and schemes for MSMEs in the bank branches. But addressing these constraints the MSMEs financing can be enhanced and MSMEs entrepreneurs can be facilitated. It can add contribution to the economy of the nation.*

## KEYWORDS

MSME, MSME Financing.

## JEL CODE

M10

## INTRODUCTION

**S**mall Scale Industry (SSI) was defined as industrial (manufacturing, processing, and preservation) unit in which the investment in plant and machinery does not exceed Rs. 100 lakh. The GOI has enhanced this investment limit to Rs. 500 lakh in respect of certain specified items under hosiery, hand tools, drugs, pharmaceuticals, stationery items and sports goods. The Small Scale units, with investments in plant & machinery upto Rs. 25 lakh were classified as tiny industries and small scale units, with export more than 50% of their output were classified as export oriented units. Industry related service business enterprises with investment in fixed assets excluding land & building up to Rs. 10 lakh were termed as Small Scale Service Business Enterprises (SSSBEs).

The Ministry of SSI and Ministry of agro & Rural Industry, Govt. of India through **Micro, Small and Medium Enterprises Development Act 2006** has envisaged the following broader classification of micro, small and medium enterprise:

In manufacturing sector, the micro enterprises are those enterprises, which are engaged in the manufacture/production/preservation of goods where investment in plant and machinery does not exceed Rs. twenty five lakh. In service sector, the micro enterprises are those enterprises, which are engaged in providing/rendering service where investment in plant and machinery does not exceed Rs. ten lakh. In manufacturing sector, the small enterprises are those enterprises which are engaged in the manufacture/production/preservation of goods where investment in plant and machinery is more than Rs twenty five lakh but does not exceed Rs five crore. In service sector, the small enterprises are those enterprises which are engaged in providing/rendering service where investment in plant and machinery is more than Rs. ten lakh but does not exceed Rs. two crore.

In manufacturing sector, the medium enterprises are those enterprises which are engaged in the manufacture/production/preservation of goods where investment in plant and machinery is more than Rs. five crore but does not exceed Rs. ten crore. In service sector, the medium enterprises are those enterprises which are engaged in providing/rendering service where investment in plant and machinery is more than Rs. two crores but does not exceed Rs. five crore.

The MSME sector is playing a vital role in all the nations world over in providing employment, contributing to Gross Domestic Product, potential for global investors, contribution to exports, engine of economic growth, promoting equitable development, increasing productivity and ensuring best use of local resources.

## REVIEW OF LITERATURE

The financial barriers affecting SMEs are high cost of credit, high bank charges, high collateral requirements and lack of outside equity and venture capital (Stiglitz and Weiss, 1981).

Cuevas *et al.* (1993) observed that access to bank credit by SMEs has been a major constraint to industrial growth due to their inability to provide acceptable collateral besides cost of transaction.

Poussion (1996) stated the financial barriers causing business failure as financial weakness from inadequate financing, over financing, poor debt management, wrong finance mix and poor strategic decisions.

Saravanan (2013) highlighted obstacles faced by SMEs in obtaining finance as lengthy loaning procedure, high collaterals, biasness, customer perception and preferences of SME products and schemes.

## OBJECTIVE OF THE STUDY

To carry out strategic analysis of constraints in respect of MSME financing by banks.

## RESEARCH METHODOLOGY

**RESEARCH DESIGN:** Research Design is the blue print for collection, measurement and analysis of data. In the captioned study, undernoted sampling and data collection design have been used.

**SAMPLING DESIGN:** The study has been carried out at Pathankot district of Punjab. The total population consists of about 4500 MSME units which includes registered and unregistered units.

**SAMPLING UNIT:** Complete Micro, Small, Medium enterprise business units.

**SAMPLE SIZE:** 100 Micro, Small and Medium Enterprises in proportionate to their population.

**SAMPLING TECHNIQUE:** Simple Random Sampling technique has been used.

**DATA COLLECTION DESIGN:** The data has been collected by the researcher himself from the SME units by the way of a well structured and designed Questionnaire.

**RESEARCH TOOLS AND TECHNIQUES:** The data has been obtained through the questionnaire, tabulated, applied Cronbach's Alpha test and applied average beside percentage method. The data has been shown through pie chart.

### ANALYSIS AND INTERPRETATIONS OF DATA

Cronbach's Alpha is the common method used to test the reliability of the questionnaire in research. This was originally derived by Kuder and Richard son (1937) and later generalized by Lee Cronbach (1951) as a measure of internal consistency of test. The items in this method are divided into two halves which are correlated. The higher correlation between the two halves reveals higher internal consistency which is expressed as a number between 0 and 1. The Cronbach's Alpha formula is:

$$\alpha = \frac{n}{n-1} \left( 1 - \frac{\sum V_i}{V_{\text{test}}} \right)$$

Where n = number of questions

$V_i$  = Variance of scores on each question

$V_{\text{test}}$  = Total variance of overall score on the entire test

In the current study, the reliability of the questionnaire pertaining to scale-based statement questions, the test has been conducted on 100 MSMEs respondents by using Cronbach's Alpha test. The statements in the form of questions as obtained from responses and study (MSME financing Constraints) are as under:

**Q (a)** Non availability of credits from banks

**Q (b)** In adequate availability of credit from banks

**Q (c)** Delayed availability from banks

**Q (d)** High collateral security oriental approach of banks.

**Q (e)** High rate of interest and other charges levied by banks

**Q (f)** Insistence of audited balance sheets and financials by banks.

**Q (g)** Lengthy documents and documentation procedure of banks

**Q (h)** Non display of products, services and schemes of MSME financing at bank branches

The statements (questions) have been given scores by MSME respondents as under:

Strongly Agree (5)      Agree (4)      Agree, but not sure (3)      Disagree (some) (2)      Disagree (largely) (1)

The total score by each of 100 respondents have been aggregated and variances of scores on each statement ( $V_i$  = Variance of score on each statement) has been worked as under:

**Variance of Q (a): Non availability of credits from banks**

TABLE 1

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	6	-2	4	-12	24
2	16	-1	1	-16	16
3	16	0	0	0	0
4	18	1	1	18	18
5	44	2	4	88	176
N = 100				$\sum fd = 78$	$\sum fd^2 = 234$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{234/100 - (78/100)^2} = 1.3159$$

$$\text{Variance} = \sigma^2 = (1.3159)^2 = 1.7316$$

**Variance of Q (b): In adequate availability of credit from banks**

TABLE 2

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	6	-2	4	-12	24
2	36	-1	1	-26	26
3	10	0	0	0	0
4	12	1	1	12	12
5	46	2	4	92	184
N = 100				$\sum fd = 66$	$\sum fd^2 = 246$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{246/100 - (66/100)^2} = 1.4228$$

$$\text{Variance} = \sigma^2 = (1.4228)^2 = 2.0244$$

**Variance of Q (c): Delayed availability from banks**

TABLE 3

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	0	-2	4	0	0
2	6	-1	1	-6	6
3	20	0	0	0	0
4	24	1	1	24	24
5	50	2	4	100	200
N = 100				$\sum fd = 118$	$\sum fd^2 = 230$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{230/100 - (118/100)^2} = 0.9527$$

$$\text{Variance} = \sigma^2 = (0.9527)^2 = 0.9076$$

**Variance of Q (d): High collateral security oriental approach of banks**

TABLE 4

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	16	-2	4	-32	64
2	6	-1	1	-6	6
3	12	0	0	0	0
4	18	1	1	18	18
5	48	2	4	96	192
N = 100				$\sum fd = 76$	$\sum fd^2 = 280$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{280/100 - (76/100)^2} = 1.4908$$

$$\text{Variance} = \sigma^2 = (1.4908)^2 = 2.2224$$

**Variance of Q (e): High rate of interest and other charges levied by banks****TABLE 5**

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	4	-2	4	-8	16
2	24	-1	1	-24	24
3	4	0	0	0	0
4	24	1	1	24	24
5	44	2	4	88	176
N = 100				$\sum fd = 80$	$\sum fd^2 = 240$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{240/100 - (80/100)^2} = 1.3266$$

$$\text{Variance} = \sigma^2 = (1.3266)^2 = 1.76$$

**Variance of Q (f): Insistence of audited balance sheet and financial by banks.****TABLE 6**

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	0	-2	4	0	0
2	16	-1	1	-16	16
3	6	0	0	0	0
4	12	1	1	12	12
5	66	2	4	132	264
N = 100				$\sum fd = 128$	$\sum fd^2 = 292$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{292/100 - (128/100)^2} = 1.1321$$

$$\text{Variance} = \sigma^2 = (1.1321)^2 = 1.2816$$

**Variance of Q (g): Lengthy documents and documentation procedure of banks****TABLE 7**

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	22	-2	4	-44	88
2	24	-1	1	-24	24
3	2	0	0	0	0
4	12	1	1	12	12
5	40	2	4	80	160
N = 100				$\sum fd = 24$	$\sum fd^2 = 284$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{284/100 - (24/100)^2} = 1.6681$$

$$\text{Variance} = \sigma^2 = (1.6681)^2 = 2.7824$$

**Variance of Q (h): Non display of products and services and schemes of MSME financing at bank branches****TABLE 8**

x	f	d = (x-3)	d <sup>2</sup>	fd	fd <sup>2</sup>
1	0	-2	4	0	0
2	10	-1	1	-10	10
3	22	0	0	0	0
4	28	1	1	28	28
5	40	2	4	80	160
N = 100				$\sum fd = 98$	$\sum fd^2 = 198$

$$\sigma = \sqrt{\sum fd^2 / N - (\sum fd / N)^2} = \sqrt{198/100 - (98/100)^2} = 1.00975$$

$$\text{Variance} = \sigma^2 = (1.00975)^2 = 1.0196$$

$$\text{Cronbach Alpha} = \alpha = n / n-1 * (1 - \sum Vi / V \text{ test})$$

Where n = number of questions Vi = Variance of Scores on each questions

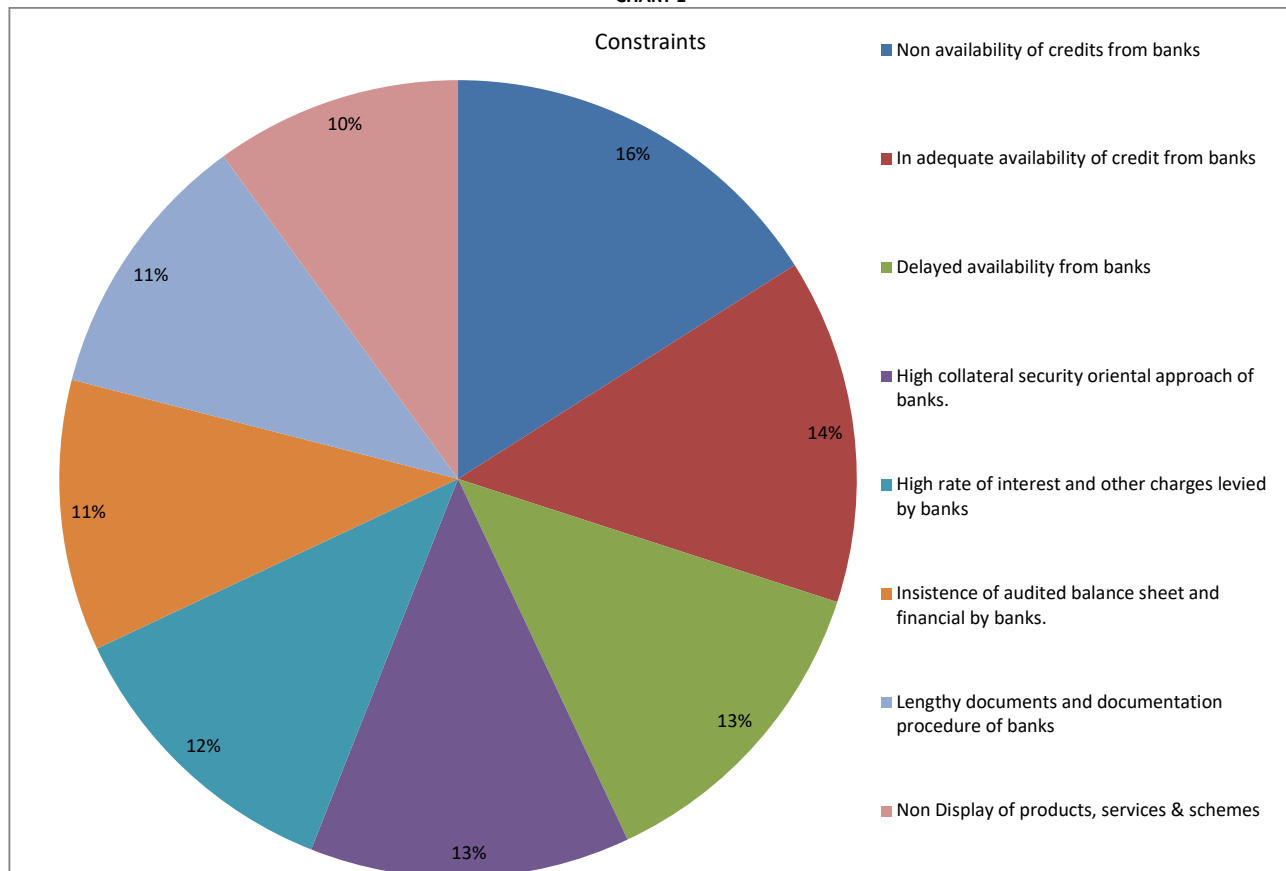
V test = Total Variance of overall score

$$A = 8/8-1 (1-13.7296/48.21) = 0.817 \text{ which is considered as good.}$$

**TABLE 9**

Sr.	Constraints	No.	(%)
Q (a)	Non availability of credits from banks	16	16
(b)	In adequate availability of credit from banks	14	14
(c)	Delayed availability from banks	13	13
(d)	High collateral security oriental approach of banks.	13	13
(e)	High rate of interest and other charges levied by banks	12	12
(f)	Insistence of audited balance sheet and financial by banks.	11	11
(g)	Lengthy documents and documentation procedure of banks	11	11
(h)	Non Display of products, services & schemes	10	10
Total		100	100%

CHART 1



## DISCUSSIONS OF RESULTS

16 % of the respondents have observed, non availability of credit as main constraint in MSME financing. 14% of the respondents have observed inadequate availability of credit as a main constraint in MSME financing. 13% of the respondents have observed, delayed availability of credit as main constraint in MSME financing. 13% of the respondents have observed collateral security as main constraint in MSME financing. 12% of the respondents have observed high interest rate as main constraint in MSME financing. 11% of the respondents have observed audited balance sheet requirement as main constraint in MSME financing. 11% of the respondents have observed lengthy documentations as main constraint in MSME financing. 10 % of the respondents have observed non display of products, services and schemes main constraint in MSME financing.

## CONCLUSION

The non availability of credit, inadequate availability of credit, delayed availability of credit are the main constraints followed by collateral security requirements, charging high rate of interest, requirement for audited financial, lengthy documentations and non display of banks products, services and schemes for MSMEs in the bank branches, as other constraints.

By addressing these constraints, banks MSME and overall credit portfolio can be increased, MSMEs can be facilitated to diversify, expand and modernize their business, thus contributing to the GDP and economy of the country.

As per Alfred Armand Montapert, "the majority see the obstacles, few see objectives; history records the success of the latter, while oblivion is the reward of the former". Despite so many constraints the banks. MSMEs and government should remain devising dynamic strategies to reduce constraints and develop the MSMEs. The Cronach's Alpha test value of the constraint statements obtained 0.8170 is considered good, which confirm internal consistency and reliability of the statements. The main constraints observed by MSME respondent's viewpoints also range between 16 % to 10 %. The study at branches and the literature review also confirm the severity of the constraints to be addressed.

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